

## Introduction

by E. SCHOKKAERT and P. VAN ROMPUY \*

This issue of the *Tijdschrift voor Economie en Management* in honour of prof. V. Van Rompuy contains a collection of papers on "Public Finance. Theory and Policy", the theme to which he devoted most of his research efforts during the last decade. All contributions in this bundle illustrate in one way or another the relationship between economic policy and economic theory.

The first paper, by Mark Eyskens, concentrates on actual policy problems and introduces several themes which reappear in other articles. He strongly argues for a reduction of the fiscal pressure in Belgium and discusses how important it is for a small open economy to create a favourable business climate.

The latter topic is worked out by Remi Boelaert. He describes the complex links between government and firms within the Belgian context. Most attention is paid to investment subsidies, to government orders and public investment and to the effects of corporate and income taxation. With respect to public investment, he argues that a better planning would decrease the uncertainty for the Belgian firms and increase therefore their competitiveness. He emphasizes, however, that the amount of public investment should be decided on the basis of social needs. The traditional economic methodology to measure the social profitability of public investment is cost-benefit analysis. The strengths and weaknesses of this technique are discussed by Robert Vertonghen. He shows how cost-benefit analysis may aug-

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Editors of this special issue.

ment the transparency of the decision-making process by making explicit the economic price of the final decision.

Both Mark Eyskens and Remi Boelaert feel that the high marginal tax rates in Belgium are one of the main impediments to economic recovery. The relationship between taxes and unemployment is investigated theoretically and empirically by Paul Van Rompuy, Guido De Bruyne and Carine Van De Voorde, who analyse the problem of tax shifting within an explicit wage bargaining model. In their view, the poor Belgian macroeconomic performance of the last decade, a scenario of rising wage gaps and unemployment, low growth, a worsening of the current account and mounting government deficits, can have been the result of increased government expenditure, which was partially financed through higher taxes on labour.

The present situation characterized by large government deficits, considerably complicates the problem of tax reform. Recent government proposals therefore compensate for the reduction of the income tax through an increase in indirect tax rates. In his contribution, Max Frank vehemently challenges the desirability of such a shift, arguing that it is both inefficient and inequitable. To increase employment, he would prefer a lowering of employers' social security contributions. Matthias Dewatripont and Françoise Thys-Clément also project the problem of tax reform against the background of the public deficit and take the reduction of unemployment as the main policy objective. As Max Frank, they do not believe that the recent proposals to reform the income tax will have an impact on employment. They therefore analyse another policy: a (deficit-neutral) shift from social security contributions to indirect taxes. Their simulation results with the Breughel-model show that such a policy can significantly affect the labour market, under the assumptions of wage moderation, credibility and adequate targeting.

However, as mentioned by Dewatripont and Thys-Clément, Keynesian unemployment is not affected by these policy instruments. Their experiments also show that an expansionary fiscal policy is prevented by the burden of interest payments and that the efficient management of government debt is thus more crucial than ever. Three papers of this collection are devoted to this issue. Wim Moezen analyses different aspects of the problem of debt management. He shows empirically that different forms of government debt are not perfectly substitutable. This complicates the problem of debt management, because this management itself will influence the struc-

ture of interest rates. He also argues that the Belgian menu of government debt emissions is not sufficiently varied and he makes some concrete proposals about innovation. Ivo Maes looks at the composition of Belgian foreign debt from a portfolio perspective. He stresses the fact that the composition of this foreign debt reflects the availability of financial instruments that dominate the international financial markets. Since no direct link can be established between the currency shares of foreign debt and their respective borrowing costs the simple portfolio approach needs to be complemented with other ingredients such as the policy objectives of the Treasury. Bernard Naudts and Erik Schokkaert present an empirical exercise, which corroborates that the major determinant of domestic short-term interest rates remains the foreign interest rate. However, contrary to much other research, they also find a significant effect of public debt.

The final papers in this volume all discuss the basic problem of the justification and the efficiency of government intervention in the economy. Each of them contains a different mixture of normative and positive considerations. Louis Gevers and Marie-Eve Hoet-Mulquin try to explain the decisions by local authorities in the Walloon region. The total amount of local expenditures is explained as reflecting the decisions of a decisive voter (who in their results is not the median one). The allocation of these global expenditures over different welfare programs is explained with a complete demand system. The approach of Gevers and Hoet-Mulquin is in the first place explanatory, although they note that their results could be useful in a later stage to judge the efficiency of local welfare policies.

Bernard Herber explicitly integrates normative considerations into his analysis of the Antarctic Treaty and describes the different international public goods, associated with the Treaty. However, public choice elements become very important in his analysis of possible developments in 1991, when the treaty is eligible for renegotiation. He predicts that despite the theoretical strength of international collective consumption arguments for the use of Antarctica as a world park, the thirst of the industrial world for more resources will prevail. This prediction is the basis for his discussion of the different possible regimes for Antarctica.

The normative viewpoint is dominating in the contribution of Luc Bouckaert. He analyses the crisis of the welfare state from a socio-ethical perspective and argues that only altruism can give a really

acceptable justification for government intervention. On the basis of his plea for solidarity, he tries to construct a new notion of "extended rationality" and gives the right to work a central place in his concept of justice. Ethical values play also a crucial role in the mediterranean tradition of economic thought, particularly in the Islamic contribution, which is skilfully explored by Louis Baeck, who succeeded Prof. V. Van Rompuy for the course "History of economic thought".

The papers in this volume cover a wide range of topics and show a large variety of approaches, both from a methodological and from a theoretical point of view. However, they all have one common characteristic: they attempt to apply economic analysis to public finance problems of today. This has also been the dominating feature of the academic work of prof. V. Van Rompuy. We therefore hope that this volume highlights his main interests in the field of public finance. It also reflects the deep esteem of his colleagues in Belgium and abroad who consider their contribution as an appropriate way to honour prof. Vic Van Rompuy.